

CATA misses the point. The mere fact that customers will pay a price does not mean the price is reasonable in terms of being at or near cost, the price point resulting from competition. Monopoly power will allow increases in penetration even if the price is above cost, and above a price the competitive market would sustain. The truth of this is evident in the post-1986 market experience. Cable subscribership grew at very high rates while prices also grew, grew at such excessive rates that Congress determined regulation was needed. Adoption of this proposal would be tantamount to the Commission dismissing the Congressional findings which led to the 1992 Cable Act.

B. Other Issues.

1. Adoption of a Uniform System Of Accounts (USOA) is a more solid foundation for cost-of-service showings than Generally Accepted Accounting Principles (GAAP).

One of the requirements of Cost-of-Service regulation is the necessity to develop a uniform accounting methodology to permit the regulator to determine the appropriate rate base, expenses, taxes, and revenues for the regulated business. For a cable operator who must file a cost-of-service showing, preparation of this filing to reveal the appropriate financial information to the Commission requires the creation of such a uniform accounting methodology. For common carriers, the Commission has employed USOA for some time and this system has permitted the Commission to regulate the common carriers in a fairly accurate manner. GTE and other commenters believe that USOA, appropriately modified, should be adopted for the cable operators.⁶⁸

The majority of the cable operators who filed comments oppose USOA and encourage the Commission to require reporting under GAAP only. Continental argues that "records required by GAAP, etc., will provide a suitable audit trail for an operator's data."⁶⁹ The cable operators defend their position on three grounds. First, they have

⁶⁸ BellSouth at 23, Bell Atlantic, et. al. at 15.

⁶⁹ Continental at 77.

already establish their financial reporting applying GAAP and to require USOA would be administratively burdensome.⁷⁰ Second, adoption would not only be a burden but it would be costly.⁷¹ Third, establishment of USOA for cable operators would take too long as evidenced by the decade it took to adopt and revise the rules for the LECs.⁷² Time Warner concludes that such books and accounts are totally unnecessary to the companies and their regulators⁷³

Unfortunately, reporting only under GAAP will not give the Commission the type of information it requires to meet its statutory and constitutional mandates. Continental argues that the benchmark/price cap model adopted by the Commission is unconstitutional because, they claim, it does not provide for rates based on cost.⁷⁴ This self-same commenter also argues that the Commission should permit them to use GAAP to set rates. The two arguments are at odds with each other. GAAP permits wide latitude in the booking of expenses, investment, and revenues. However, GAAP does not provide sufficient standardized rules to permit uniform allocation of this accounting to various business operations or by jurisdiction. For a large vertically integrated cable operator, use of GAAP would permit the operator to assign cost of programming offered on a per channel or per view basis to the regulated cable services. The Commission would be powerless to determine the reasonableness of a cost-of-service showing without the isolation of programming costs and other pertinent information. Nor would the Commission be able to use other cable operators as

⁷⁰ Joint Parties at 51.

⁷¹ Tele-Media at 18.

⁷² Time Warner at 38.

⁷³ Time Warner at 37.

⁷⁴ Continental at 5.

yardsticks to assure itself that costs were properly being allocated, because those operators would also have complete freedom to allocate costs as they chose.

GTE supports, in principle, the reduction of administrative burden, but, if a cable operator chooses to use the Cost-of-Service alternative it must be prepared to defend its request and provide the Commission with sufficient financial information to determine reasonableness. For that reason the Commission has no other option than to adopt uniform accounting standards for the cable operators and the most easy and rapid route to implementation is to modify the LEC rules for cable operators.

2. The Commission should adhere to its preference for valuing rate base at original cost.

Numerous cable commenters oppose the use of original cost valuation, especially when a cable system has changed ownership through one or more purchase transactions.⁷⁵ Instead, they argue that the full purchase price of acquired systems should be part of the rate base. GTE disagrees with this argument and urges the Commission to adopt its initial proposal to use an original cost valuation method.⁷⁶

The reasons for opposing original cost valuation center on its traditional exclusion from rate base of excess acquisition costs incurred by the purchasing companies. This, the cable commenters argue, would contravene traditional application of public utility regulation. The cable commenters assert that, because cable service was deregulated from 1984 through 1992, cable facilities were not "dedicated to public use" during this time. This, the commenters note, contravenes traditional application of the original cost methodology which measures original cost at

⁷⁵ Viacom at 14-26; Cablevision at 19; NCTA at 7; TCI at 17; Medium Sized Operators at 16.

⁷⁶ The vast majority of state utility regulatory commissions have adopted original cost valuation. For a summary of the history and ongoing debate as to the choice of ratebase valuation methods, see A.J.G. Priest, *Principles of Public Utility Regulation* 139-190 (Michie 1969).

the time facilities were first dedicated to public use. Since current regulation became law only in 1992, the cable commenters suggest that valuation must account for system acquisitions prior to that time.

GTE believes that these arguments ignore the quasi-utility nature of cable systems which was evident long before the Cable Act of 1984 and has been increasing steadily to the present.⁷⁷ The cable commenters ignore the fact that even before the 1984 Cable Act,⁷⁸ cable systems were subject to local franchises. In its seminal Report and Order of 1972, the Commission allowed rate regulation at the local option of the franchising authority and first imposed the quasi-utility requirement of public, educational and governmental (PEG) access channels.⁷⁹ Arguably, cable facilities of 20 years or older were first dedicated to public use at that time.

The intervening period from 1986 (the end of rate regulation) to 1992 does not alter this fact because cable operators were still subject to numerous regulatory requirements. Even rate regulation was permitted in cases where, pursuant to FCC definition, "effective competition" from over-the-air television was not present. Plenary local authority over cable facilities (as contrasted with programming) was codified, and

⁷⁷ Despite the ebbs and flows of regulation, deregulation and reregulation, cable television has grown steadily in its reach and appeal. By improving the quality of broadcast signals and by offering programs not available over-the-air, the industry's very success increasingly has caused it to be viewed as a "necessity" and a "de facto monopoly" when compared to the relatively lower signal quality and lesser diversity of conventional television broadcasting.

⁷⁸ Cable Communications Policy Act of 1984, Pub. L. No. 98-549, 98 Stat. 2779 (codified as amended at 47 U.S.C.A. Section 541(c)) ("1984 Cable Act").

⁷⁹ Amendment Of Part 74, Subpart K, Of The Commission's Rules And Regulations Relative To Community Antenna Television Systems; And Inquiry Into The Development Of Communications Technology And Services To Formulate Regulatory Policy And Rulemaking and/or Legislative Proposals, 36 FCC 2d 143 (1972). Nor was all the activity at the federal and local levels of government. Many states wrote laws variously defining the new industry as a public utility or quasi-utility.

initial steps were taken to expand the PEG access concept to include commercial leased access. Operators were subject to numerous technical and other minimum standards and requirements. These represent significant elements of public use that have been constant even during the period of so-called rate deregulation.

The cable commenters argue that, because the sales of cable systems were arms-length transactions, there is no point in using original cost valuation which typically is employed to prevent artificial inflation of the rate base. True, one purpose of original cost valuation has been to protect against inflation of the rate base through affiliate transactions. However, this is only one example of a much larger purpose. The Supreme Court recognized a role for original cost valuation even when a transaction is with an independent third party.⁸⁰ The overall purpose of original cost valuation, as the Supreme Court observed, is to ensure that "market or intrinsic value for the uses of the business" determines the price paid as opposed to some other inflated value.⁸¹ The Commission's choice of original cost is designed to accomplish that very end.

The cable commenters argue, nevertheless, that excess acquisition costs have been the product of "good-faith" or "arms-length" bargaining between willing buyers and sellers in a "competitive marketplace." Although the arena for the purchase of cable systems may have been competitive, the local service market within which these systems operated was not competitive. Thus, the attractiveness of these systems to

⁸⁰ *American Telephone & Telegraph Co. v. U.S.*, 299 U.S. 232, 239 (1936).

⁸¹ *Id.*

potential purchasers almost certainly included the expectation of monopoly rents.⁸² To the extent monopoly rents are a part of the excess acquisition costs, they should not be included in the rate base.

GTE, however, does not believe that the Commission should conclusively exclude all excess acquisition costs from the rate base as monopoly rents. As the cable commenters correctly point out, there can be other explanations for the excess costs. Thus, GTE believes that the Commission may create a presumption that excess acquisition costs are monopoly rents subject to rebuttal by the cable operators on an individual basis, or, in meritorious circumstances, may provide for waiver of any rule barring excess acquisition costs from rate base.⁸³

The increasing convergence of cable and telephone technologies is another reason to employ original cost valuation. Because the two industries offer the same or substantially similar services, disparate regulatory standards could lead to perverse consequences potentially favoring one medium over the other. As GTE and other telcos consistently have advocated in this and other proceedings, the Commission should apply the same regulatory standards to all similarly situated industries in order

⁸² See the Commission's discussion of "Statistical Evidence of Cable Market Power" in its Report to Congress developed in MM Docket 89-600, 5 FCC Rcd 4962, 4997-5002 (1990), particularly of the so-called "q ratio" comparing market value of cable assets to their replacement value. The Report quotes the conclusion of the Justice Department, with which the Report later agrees, that "these studies provide some support for the conclusion that cable firms possess some degree of local market power." 5 FCC Rcd at 4999 and App. E, page 9 (5079). The data used in the studies was drawn from the 1985-89 period following the substantial rate deregulation of the 1984 Cable Act.

⁸³ This is the Commission's determination in the case of LEC acquisition cost in excess of original cost. Amendment of Part 65 to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, Report and Order, 3 FCC Rcd 269 (1987), reconsideration 4 FCC Rcd 1697 (1989), remanded. *Illinois Bell Telephone Company v. FCC*, 911 F.2d 776 (D.C. Cir. 1990).

to maintain competitive parity.⁸⁴ There is no reason to differentiate between cable and telephone in constructing the rate base.

Cable operators attempt to distinguish themselves from telcos by charging that telcos are an essential service and cable is not. Because cable is not an essential service, they argue that subscribers are always free to go without. However as mentioned above, the notable success of cable in the expansion of programming services and numbers of subscribers has made cable an essential service for many customers. This is best evidenced by Congress' response to subscriber complaints through adoption of the 1992 Act and the decision to apply regulation to systems not facing effective competition. Because the overwhelming number of customers as yet have no practical alternative to their local cable systems, they are forced to pay the rates charged or go without cable service. The fact that so many subscribers have chosen to pay the higher rates, despite their outrage, indicates that they view cable as a necessity.

To the extent that original cost continues to be applied as the preferred rate base valuation methodology for regulated telephone companies, it is the better choice for the cable industry as well in the minority of cases where primary benchmark/price cap methods of rate regulation are insufficient.

3. Because the threat of cable rate regulation did not materialize suddenly in 1992, consumers should not be expected to absorb acquisition expenses imprudently founded upon continued deregulation.

It is difficult to escape the conclusion reached by the Justice Department and the FCC in 1990 (note 77, *supra*) that cable system purchase prices, during the period between the 1984 and 1992 cable acts, included some factor of monopoly rent. Nevertheless, as noted above, GTE agrees with cable industry commenters that the Commission should not automatically exclude all excess acquisition costs from rate

⁸⁴ GTE at 1-12; Bell Atlantic et al. at 4-9; BellSouth at 3.

base. Rather, the FCC should acknowledge and attempt to accomplish the difficult task of separating legitimate expense from monopoly-engendered price inflation which Congress emphatically did not want consumers to continue paying.

Joint Comments go too far, however, when they declare:

No cable operator could reasonably have been expected, in acquiring cable systems at prevailing market prices prior to rate regulation, to account for the risk that it would . . . become subject to rate regulation. . . .⁸⁵

It is altogether too facile to view the 1992 Cable Act as an unpredictable shock of rate regulation reversing the course of the 1984 legislation. To the contrary, Section 623(b), 47 U.S.C. § 543(b), as enacted in the earlier year, ordered the FCC to prescribe rules for regulating the basic cable service rates of systems not subject to effective competition, as defined by the administrative agency.

Moreover, the Commission in 1990 determined to revise the effective-competition definition and substantially expanded it in a way that made more cable systems potentially subject to rate regulation.⁸⁶ To some degree, therefore, the

⁸⁵ Joint Parties at 22. Seeking to defend the full allowance of purchase price for "reasonable, investment-backed expectations" in 1984-92 cable acquisitions, the Joint Comments invoke the U.S. Supreme Court on the subject of unconstitutional regulatory takings. However, the cited case, *Williamson Planning Commission*, 473 U.S. 172 (1985), reversed and remanded the lower appellate court's finding of a compensable regulatory taking on the ground that the responsible administrative agency had not yet decided finally how to apply the questioned regulations.

⁸⁶ *Reexamination of the Effective Competition Standard*, 6 FCC Rcd 4545. One element of the revised standard, the competing multichannel video delivery service, closely resembled the 1992 legislative definition found at Section 623(l)(1)(B). Prior to 1984, of course, rate regulation was a matter of franchising authority local option.

possibility always existed — and the more so since 1990 — that local or federal action would bring a given cable system under basic rate regulation.⁸⁷

On the basis of the above, it would be difficult to immunize from rate base adjustment for monopoly rent — on the ground of investor surprise — any and all 1984-92 system acquisitions, a period in which the threat of rate regulation was always present, and especially so in the final three years.

4. Adoption of a price cap depreciation prescription process should be pursued as opposed to the process instituted under rate of return regulation.

As GTE stated in its Comments, a depreciation prescription process based on cost-of-service regulation makes no sense in a price cap environment. The Commission is better served by determining whether it will prescribe depreciation for price cap purposes, and apply such rules for purposes of determining depreciation in a Cost-of-Service context. Given the overwhelming objection of the cable operators to an extensive depreciation prescription process,⁸⁸ it would appear cable operators would also prefer the Commission to approach prescription from the price cap perspective. For example, Joint Parties state that when the Commission establishes depreciation rules for cable operators it should "preserve[] the opportunity to employ streamlined procedures for cost-of-service regulation."⁸⁹

⁸⁷ This constantly overhanging threat of regulation casts considerable doubt on the "event studies" approach in The Brattle Group paper attached to the Comments of Viacom International, purporting to demonstrate by cable stock price fluctuations responsive to 1992 and 1993 regulatory occurrences that a relatively small portion of cable's investment attractiveness could be attributed to the industry's local video service monopoly. Because the cable world cannot be divided neatly into pre-regulation and post-regulation phases, it seems quite possible that a given cable stock could have lost part of its "monopoly value" in 1990 or even earlier.

⁸⁸ Time Warner at 26, Continental at 83, and TCI at 28.

⁸⁹ Joint Parties at 44.

The Commission is in the midst of a proceeding evaluating several alternatives to simplify the prescription process for the LECs. The fourth option, commonly known as the price cap carrier option, would be appropriate for adoption for the cable operators since it is designed to reduce the level of regulatory scrutiny in order to provide incentives to operate in an increasingly competitive market.⁹⁰ Continental specifically mentions this fourth option and believes that it could be employed by franchising authorities to provide a means to review basic rates and allow subscribers to file complaints. The Commission could then review depreciation practices on a case-by-case basis.⁹¹ GTE suggests that the Depreciation NPRM is not the place to determine whether Continental's proposed Cost-of-Service approach is the exact type of process that should be adopted, but believes that Continental recognizes the need for a streamlined process either under price caps or Cost-of-Service showings. GTE encourages the Commission not to get bogged down in the laborious prescription process and to adopt a streamlined process for both price caps and Cost-of-Service showings.

5. **The Commission should affirm its tentative decision to adopt a unitary rate of return and use the S&P 400 and the LECs as the surrogates to determine the cable industry rate of return.**
 - a. **Adoption of a unitary rate of return for the cable operators is appropriate.**

Adoption of a unitary rate of return has come under substantial fire from several cable commenters.⁹² Other cable commenters accept the Commission's proposal for use of a unitary rate of return.⁹³ GTE agrees with the latter commenters, as do other

⁹⁰ Simplification of the Depreciation prescription Process, CC Docket No. 92-266, Notice of Proposed Rulemaking, 8 FCC Rcd 146 (1992) ("Depreciation NPRM").

⁹¹ Continental at 87.

⁹² Time Warner at 13,35, Comcast at 37,38,

⁹³ Joint Parties at 38,39, Continental at 58.

LEC commenters who have had the benefit of experience under a unitary rate of return regime.⁹⁴

As the affidavit of Dr. Vander Weide makes clear, the cable industry has characteristics which make it homogeneous. At least one of the rating agencies agrees, finding that there is "stability of service demand, continuing subscriber growth, and the predictability of cash-flow generation."⁹⁵ Any differences between cable companies fall more in the realm of individual decisions on how to handle accounting for such matters as the deferral of prior returns⁹⁶ or in the establishment of debt/equity ratios.⁹⁷ These are unique management decisions which, given the future predictability of regulation, can be adjusted by management. They are not the types of fundamental operating risks which would require the Commission to treat various cable operators differently.

Nothing suggested in the comments should cause the Commission to vary from its decision to apply a unitary rate of return to the cable industry.

⁹⁴ BellSouth at 19, Bell Atlantic, *et. al.*, Affidavit of James H. Vander Weide at 15.

⁹⁵ Bell Atlantic, *et. al.*, Affidavit of James H. Vander Weide at 11.

⁹⁶ Continental at 46.

⁹⁷ Continental suggests that the bond investor somehow treats the cable industry differently from the LEC industry, offering a comparison of negative covenants found in its recent prospectus, to that of GTE, among others. Continental, Exhibits C-2 and C-3. This is incorrect, and from Continental's situation, may arise because its operating cable systems do not themselves issue long term debt. The so-called negative covenants, restrictions on dividends, limitations on amount of indebtedness, merger or sales of assets and other requirements are found not in the debt instruments of GTE, a holding company, but in those of its operating telephone company affiliates. Continental conveniently forgot to look in the proper place.

b. Use of the S&P 400 and the LECs as surrogates to determine the rate of return is proper.

No commenter has proposed a set of surrogates which would be more appropriate than the S&P 400 and the LECs for use in determining the cable industry rate of return. The Commission has not been offered any other surrogate which would suggest better fit. The S&P 400 has been used by the Commission in determining the rate of return for LECs since 1984. Even if one were to concede that the cable industry has higher business risk than LECs, the Commission can adjust for such risk by utilizing the rate of return earned in the upper quartile of the index.⁹⁸

6. Cost allocation should generally follow the common carrier rules and should be maintained at the MSO level.

GTE continues to recommend that cable operator costs should be allocated between regulated and non-regulated operations under rules consistent with those in effect for the LECs. Arthur Andersen draws the same conclusion in its statement that "the Commission's principles [Part 64] governing regulated/nonregulated cost allocations by [LECs] would be equally applicable to cable operators."⁹⁹ It believes this parity is necessary since the cable and telco industries will "likely directly compete for multimedia services...."¹⁰⁰ GTE and Arthur Andersen both suggest that cost should be directly assigned where possible and residual cost should then allocated to follow direct costs as closely as possible.¹⁰¹ Time Warner also supports the rules for direct assignment of costs.¹⁰²

⁹⁸ GTE at 28.

⁹⁹ Arthur Andersen at 35.

¹⁰⁰ Arthur Andersen at 35.

¹⁰¹ GTE at 25 and Arthur Andersen at 35.

¹⁰² Time Warner at 22.

Cable commenters do differ sharply on the jurisdictional level to which costs should be allocated: MSO or franchise. Time Warner opposes allocating at the higher MSO level because low costs will end up subsidizing high costs.¹⁰³ In the other corner, several cable commenters believe that cost should be averaged at the MSO level.¹⁰⁴ Continental finds that if it were required to maintain costs at the franchise level "it would substantially increase the cost of doing business and be inconsistent with efforts to consolidate operations and improve customer service."¹⁰⁵ Tele-Media supports the MSO level of aggregation because it says this is the level at which most operators maintain their accounting records."¹⁰⁶ GTE agrees with the majority of these operators who support aggregation at the MSO level because it meets the goal of simplification. GTE reminds the Commission, however, that the two-tiered regulatory scheme set forth in the 1992 Cable Act may require cost allocation at the franchise level to permit those regulatory authorities to assure the reasonableness of rates within their jurisdictions.

7. Affiliate transaction rules specified in Part 64 of the common carrier rules should be followed with two exceptions.

GTE supports general adoption of Part 64 common carrier rules for the cable operators to record transactions between affiliates. GTE, however, has proposed two specific recommended revisions it believes should be adopted for cable operators and the LECs. First, the asymmetrical treatment of property transactions according to the direction of the transfer should be rectified. GTE supports the recommended modification of Arthur Andersen:

¹⁰³ Time Warner at 39.

¹⁰⁴ Joint Parties at 49, Cablevision at 38,n. 81, Continental at 74-75, and Tele-Media at 19.

¹⁰⁵ Continental at 74.

¹⁰⁶ Tele-Media at 19.

The asymmetrical **asset** transfer rules should be amended to utilize fair market value into and out of regulation.¹⁰⁷

This position is also embraced by Joint Parties who state that "cable operators should be allowed to record affiliate transactions at prevailing company prices offered in the marketplace to third parties."¹⁰⁸

Second, GTE suggests that the definition for ownership percentage for affiliate entities be increased from 5 percent to 20 percent. The 5 percent requirement is an administrative burden and should be raised. This is a recommendation also proposed by Arthur Andersen who regularly audits the financial reports of LECs on whom the five percent is imposed. It is obvious that they believe the five percent is overly restrictive and administratively burdensome.

8. Mark-up of programming expenses has not been justified on this record.

Some cable commenters urge the Commission to allow mark-up of programming expenses for development of cost-based rates.¹⁰⁹ However, this is contrary to traditional cost-of-service recovery of operating expenses which allows the operator to recover its costs but nothing more. GTE believes that a mark-up on programming expenses will only increase the risk of overcompensating cable operators for the same expenses.¹¹⁰

The asserted justification for a mark-up is the high risk associated with new programming ventures and the fact that many programmers are actually joint ventures between cable operators and a programming entity. Without a mark-up, cable

¹⁰⁷ Arthur Andersen at 37.

¹⁰⁸ Joint Parties at 59.

¹⁰⁹ TCI at 33-36; Time-Warner at 23; Telemedia at 10.

¹¹⁰ By treating the one element of programming expense as if it operated in isolation from other costs, the mark-up proposal is analogous to "single-factor ratemaking," discussed at page 19, supra.

commenters assert that they will have no incentive to invest in new programming. The absence of a mark-up, however, will not prevent joint venturing cable operators from earning a return on their programming investments.

There is nothing in the 1992 Act or other laws to prevent a supplier of programming from setting its prices to earn the returns the market will bear. A co-venturing cable operator is permitted – under benchmark/price cap rules as developed to date – to flow through the expenses of such programming to the extent they exceed the GNP-PI. The investing cable operator shares in the returns on the programming to the extent of its investment in the supplier. To allow the cable operator also to flow through a mark-up on its payment to the supplier would constitute overcompensation.

For the cable operator who is not an investor in a programming supplier, the choice of the proper rate of return for Cost-of-Service purposes nevertheless should reflect the risks associated with the operator's purchase of entertainment product and earn the operator a reward based on his rate base assets devoted prudently to cable service. Absent a showing that fair cost recovery and a proportionate return on rate base are insufficient compensation to cover the expenses of the operator's business and keep it attractive to investors, a mark-up should not be permitted. GTE suggests that such a showing would indeed be extraordinary.

TCI goes so far as to suggest that the so-called Averch-Johnson effect will cause operators to overinvest in physical capital, which is included in the rate base, at the expense of programming, for which no mark-up will be allowed.¹¹¹ Besides the fact that the co-investing operator will be able to earn a return on its programming investment

¹¹¹ TCI at 35. See, H. Averch and L. L. Johnson, "Behavior of the Firm Under Regulatory Constraint," *American Economic Review*, 1963, 1052-69. The authors posit that where profit is related to return on regulated investment, the regulated firm will favor capital over other inputs, so long as the allowed rate of return is greater than the true cost of capital.

through the programmer partner, the TCI scenario is dubious for a more fundamental reason.

The present entertainment focus of the cable medium means that it must continue to provide viewers with material they want to watch. A decision not to purchase and otherwise support new programming would be, for most operators, a decision to leave the business. Unlike the common carrier whose focus is on the transport of others' information, the cable operator is akin to an editor who must continue to select content that will please his readership.

In short, the continued encouragement of program development is an inherent requirement of the cable business and does not call for the extraordinary inducement of a special and probably overcompensating mark-up.

V. CONCLUSION.

The Commission has addressed a huge number of ratemaking issues in this NPRM, the Cable Rate Regulation Order, and the Rate Regulation Reconsideration Order. What emerges from the comments and from the decisions is a necessity to readdress the benchmark analysis to assure that all variables are properly identified and considered in setting the initial rate. The importance of this process is underscored by the statement of Dr. Schankerman that this step, together with price caps should eliminate the necessity for virtually all Cost-of-Service proceedings.

GTE also proposes that the Commission adopt the Competitive Price Cap Model introduced by Dr. Schankerman. Such action will remove almost all of the alleged inefficiencies of the price cap model tentatively adopted by the Commission. Use of the Competitive Price Cap Model will recognize the efficiencies required by the competitive market and will remove the necessity to make exception for exogenous expenses.

The Commission should adopt an accounting system similar to the USOA, provide a method of depreciation similar to the price cap carrier option to be applied to an original cost rate base and utilize a unitary rate of return established using the S&P

400 and the LECs as surrogates. This will provide a Cost-of Service methodology which will serve as a backstop.

Respectfully submitted,

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Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "Reply Comments of GTE" have been mailed by first class United States mail, postage prepaid, on the 14th day of September, 1993 to all parties of record.



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